

April 10, 2003

Mr. Ernest G. Johnson
Director – Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Dear Mr. Johnson;

Re: Issues List for the Electric Competition Advisory Group

In accordance with your memorandum of March 19, 2003, I am writing to request that the Commission include in the issues list modifications to the Retail Electric Competition Rules for the purpose of allowing a retail load to self-provide for its electrical needs. This issue is relevant in the situation where the resource and load are not at the same location, thus requiring use of the UDC's distribution system.

Such a provision in the Competition Rules would expand the options currently available to retail customers. Under the current rules a customer, seeking an option to its incumbent utility, must turn to an ESP for the provision of its electrical requirements. Although the role of an ESP may still be valid in this case, the actual retail customer should have the option of owning the resource(s) used to provide for its electrical requirements. The role of the ESP in this situation would be to facilitate the delivery of the customer owned resources to the desired location.

An additional option would be for the customer to enter into an agreement with the incumbent utility under which the utility could operate the resource in accordance with the customer's electrical requirements. The amount of resource necessary to fulfill this arrangement could be negotiated between the utility and the customer. This type of arrangement would be especially valuable when no ESP can be found who is interested in providing only the non-power related Competitive Services.

Your memo of March 19th also requests an identification of the sections in the Competition Rules which may need revision. The following sections may need to be changed if the concept of self-provision is approved by the Commission;

R14-2-1601 Definitions

(15) – Electric Service Provider

Under the current definition self-provision might require the end user to become an ESP. Such a requirement would substantially reduce end users interest in the concept of self-provision.

Definitions (cont.)

(23) – Load Serving Entity

Under self-provision an end-user might be considered such without having to be an ESP. However, the Competition Rules place a substantial filing requirement on any entity defined as a Load Serving Entity.

R14-2-1603 Certificates of Convenience and Necessity

Should self-provision require the need for a CCN since generation is considered a Competitive Service? Since the financial consequences of self-provision are born solely by the provider, at most a modified certificate might be appropriate.

R14-2-1605 Competitive Services

Since generation is a Competitive Service this section would require a CCN before an end user could self-provide. Is such necessary?

R14-2-1617 Disclosure of Information

If a self-provider is determined to be a Load Serving Entity should it also be required to prepare the consumer information required under this section? Since the self-provider is not intending to market generation services to other entities the filing requirements under this section are not relevant to the Commission's purpose.

I believe that the preceding encompasses a majority of the Competition Rules which may need revision if the Commission embraces the idea of end users self-providing their energy requirements. This list could change depending on the other issues addressed by the Advisory Group and their implications to the existing rules.

Sincerely,

Kenneth A. Bagley
Senior Director
R.W. Beck, Inc.